

Garfield County Rural Water District No. 4

Garfield County, Oklahoma

Financial Statements

December 31, 2021 and 2020

Garfield County Rural Water District No. 4

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Michael L Mettry CPA

2525 NW Expressway Suite 200

Oklahoma City, OK 73112

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Garfield County Rural Water District No. 4

Opinions

We have audited the accompanying modified cash basis financial statements of the business-type activities of the Garfield County Rural Water District No. 4, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Garfield County Rural Water District No. 4's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of the Garfield County Rural Water District No. 4, as of December 31, 2021, and the respective changes in modified cash basis financial position, and cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Garfield County Rural Water District No. 4, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter—Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Garfield County Rural Water District No. 4's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Garfield County Rural Water District No. 4's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the management's discussion and analysis and budgetary comparison information but does not include the basic financial statements and our auditor's report thereon. Management has omitted this information. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2022, on our consideration of the Garfield County Rural Water District No. 4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Garfield County Rural Water District No. 4's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Garfield County Rural Water District No. 4's internal control over financial reporting and compliance.

Michael Mettrey

Oklahoma City, OK
December 16, 2022

Garfield County Rural Water District No. 4
Garfield County, Oklahoma
Statement of Net Position Modified Cash Basis
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Current Assets		
Cash	\$ 17,451	\$ 47,857
Total Current Assets	<u>17,451</u>	<u>47,857</u>
Investments		
Investments, Unrestricted	19,304	19,132
Total Investments	<u>19,304</u>	<u>19,132</u>
Net Property, Plant, and Equipment	<u>18,916</u>	<u>19,628</u>
Total Assets	<u><u>\$ 55,671</u></u>	<u><u>\$ 86,617</u></u>
Deferred Outflows of Resources		
Total Deferred Outflows	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Current Liabilities		
Current Portion Long Term Debt	\$ -	\$ 1,204
Total Current Liabilities	<u>-</u>	<u>1,204</u>
Long Term Debt	<u>-</u>	<u>-</u>
Total Liabilities	<u><u>\$ -</u></u>	<u><u>\$ 1,204</u></u>
Deferred Inflows of Resources		
Total Deferred Inflows of Resources	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Net Position		
Net Investment in Capital Assets	\$ 18,916	\$ 18,424
Restricted	-	-
Unrestricted	<u>36,755</u>	<u>66,989</u>
Total Net Position	<u><u>\$ 55,671</u></u>	<u><u>\$ 85,413</u></u>

See independent auditor's report and notes

Garfield County Rural Water District No. 4
Garfield County, Oklahoma
Statement of Revenues, Expenses, and Changes in Net Position
Modified Cash Basis
for the year ended December 31,

	2021	2020
Operating Revenues		
Water service	\$ 64,278	\$ 70,474
Other income	-	-
Total Operating Revenues	<u>64,278</u>	<u>70,474</u>
Operating Expenses		
Utilities	1,614	1,805
Repairs, maintenance and supplies	32,584	7,663
Water costs	39,812	33,243
Operator fees	8,520	8,520
Gift cards and prizes	87	-
Office supplies and postage	2,552	1,366
Office Expenses	1,162	-
Bank service charge	17	-
Membership dues and fees	-	317
Licenses, permits, and DEQ	2,094	1,261
Professional fees	3,136	-
Insurance	2,538	1,359
Miscellaneous expenses	-	28
Depreciation	<u>712</u>	<u>712</u>
Total Operating Expenses	<u>94,828</u>	<u>56,274</u>
Operating Income (Loss)	<u>(30,550)</u>	<u>14,200</u>
Nonoperating Revenues (Expenses)		
Interest income	171	327
Interest expense	<u>(11)</u>	<u>(262)</u>
Net Nonoperating Revenues (Expenses)	<u>160</u>	<u>65</u>
Change in Net Position	(30,390)	14,265
Prior period adjustment	648	
Net Position, Beginning	<u>85,413</u>	<u>71,148</u>
Net Position, Ending	<u><u>\$ 55,671</u></u>	<u><u>\$ 85,413</u></u>

See independent auditor's report and notes

Garfield County Rural Water District No. 4
Garfield County, Oklahoma
Statements of Cash Flows
Modified Cash Basis
for the year ended December 31,

	2021	2020
Cash flows from operating activities		
Cash received from customers	\$ 64,278	\$ 70,474
Cash payments to suppliers for goods and services	(94,116)	(55,562)
Net cash provided by (used in) operating activities	<u>(29,838)</u>	<u>14,912</u>
Cash flows from non-capital financing activities		
Cash received for equipment	-	-
Cash paid for equipment	0	-
Net cash provided by (used in) non-capital financing activities	<u>0</u>	<u>-</u>
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	-	-
Interest paid on debt	(11)	(262)
Principal payments	(1,204)	(7,406)
Net cash used in capital and related financing activities	<u>(1,215)</u>	<u>(7,668)</u>
Cash flows from investing activities		
Interest income	171	327
Change in CD classification	-	(10,490)
(Purchase) sale of investments	-	(327)
Net cash provided by (used in) investing activities	<u>171</u>	<u>(10,490)</u>
Net change in cash and cash equivalents	(30,882)	(3,246)
Cash and cash equivalents, beginning	47,857	51,103
Cash and cash equivalents, ending	<u>\$ 17,451</u>	<u>\$ 47,857</u>

**Reconciliation of Cash Flows from Operating Activities
to Operating Income (Loss)**

Cash flows from operating activities		
Operating income (loss)	\$ (30,550)	\$ 14,200
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation Expense	712	712
Changes in assets and liabilities:		
Net cash provided by (used in) operating activities	<u>\$ (29,838)</u>	<u>\$ 14,912</u>
Non cash activities	\$ -	\$ -

See independent auditor's report and notes

Garfield County Rural Water District No. 4
Garfield County, Oklahoma
Notes to Financial Statements

1. Organization and Nature of Operations and Summary of Significant Accounting Policies

Perry Acres Rural Water District was organized January 1978 under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.3 et seq. of the laws of the State of Oklahoma. The name was changed to Garfield County Rural Water District No. 4. The District is exempt from federal and state income taxes. The purpose of the District is to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District, and others as authorized by the by-laws.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets, and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Operating revenues, such as charges for services, result from exchange transactions with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses include the cost of sales/services, administration and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For the purpose of the Statement of Cash Flows, the District considers all checking and savings accounts (excluding grant accounts) and deposits and short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents. Cash is provided coverage of \$250,000 to depositors through the Federal Deposit Insurance Corporation.

Garfield County Rural Water District No. 4
Garfield County, Oklahoma
Notes to Financial Statements

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Investments are stated at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Cash and certificates of deposit are authorized investments. Cash and certificates of deposit are reported at carrying amounts, which reasonably approximates fair value.

Property, plant, and equipment are recorded at cost and depreciated. Depreciation is computed by the straight-line method over the estimated useful lives. Assets lives are estimated to be between seven and thirty-nine years. Loan application costs are amortized over a period of 28.8 years. If the cost of an improvement is material, it is capitalized. The District has no written policy for capitalization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, if any, is included as part of the capitalized value of the assets constructed.

The statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then.

The statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources until that time.

Restricted net position is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. Net investment in capital assets is equal to net property, plant, equipment, and deposits decreased by notes payable. Temporarily restricted net position is restricted by the board of directors and will be used first for expenditures.

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Garfield County Rural Water District No. 4
Garfield County, Oklahoma
Notes to Financial Statements

The District is exposed to various risks of loss related to torts, theft or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. Significant real and personal property exposures are covered by insurance for loss from all perils, including earthquakes and flood damage.

2. Investments

The following details the investment fair value categorized within the fair value hierarchy established by generally accepted accounting principles.

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 19,304			\$ 19,304
	<u>\$ 19,304</u>			<u>\$ 19,304</u>

3. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Equipment	\$ 6,740			\$ 6,740
Waterline systems	125,437	-		125,437
Water tower	37,300			37,300
	<u>169,477</u>	<u>-</u>		<u>169,477</u>
Accumulated depreciation and amortization	(149,849)	(712)		(150,561)
	<u>(149,849)</u>	<u>(712)</u>		<u>(150,561)</u>
Net capital assets	\$ 19,628	\$ (712)	\$ -	\$ 18,916

Garfield County Rural Water District No. 4
Garfield County, Oklahoma
Notes to Financial Statements

4. Long Term Debt

The following schedules the long-term debt:

In May 1981 the district borrowed \$130,000 to develop a water system.						
Monthly payments are \$639 for 40 years at 5%						
Secured by assets of the District.						\$ -
Less current portion						-
Non-current portion						\$ -
Principle maturities for the next five years						
	2022					\$ -
	2023					-
	2024					-
	2025					-
	2026					-
	thereafter					-
Total long term debt						\$ -

5. Subsequent Events

Management has evaluated subsequent events through December 16, 2022, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

Michael L Mettry CPA

2525 NW Expressway Suite 200

Oklahoma City, OK 73112

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Garfield County Rural Water District No. 4

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Garfield County Rural Water District No. 4, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Garfield County Rural Water District No. 4's basic financial statements and have issued our report thereon dated December 16, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Garfield County Rural Water District No. 4's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Garfield County Rural Water District No. 4's internal control. Accordingly, we do not express an opinion on the effectiveness of Garfield County Rural Water District No. 4's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Garfield County Rural Water District No. 4's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Garfield County Rural Water District No. 4's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Garfield County Rural Water District No. 4's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Garfield County Rural Water District No. 4's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Michael Mettry
Oklahoma City, OK
December 16, 2022

Garfield County Rural Water District No. 4
Garfield County, Oklahoma
Schedule of Findings and Questioned Costs
December 31, 2021

FINDINGS AND QUESTIONED COSTS

2021-001 Material weakness in internal control over financial reporting: Inadequate segregation of duties.

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits and maintaining billing registers. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or potential effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.